

## Message Text

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ACTION EUR-12

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FM AMCONSUL MONTREAL  
TO SECSTATE WASHDC PRIORITY 300  
AMEMBASSY OTTAWA PRIORITY  
AMCONSUL QUEBEC PRIORITY

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E.O. 11652: NA  
TAGS: ECON, EFIN, PINT, CA  
SUBJECTC QUEBEC COUNTERS - CHRETIEN BUSHWACKED?

REF: OTTAWA 1814

BEGIN SUMMARY: QUEBEC HAS RESPONDED TO FEDERAL GOVERNMENT SALES  
TAX PROPOSAL WITH PROGRAM OF SELECTIVE TAX CUTS FOR ONE YEAR THAT  
WOULD BENEFIT QUEBEC'S TRADITIONAL INDUSTRIAL SECTORS. GENERAL  
FEELING HERE IS THAT QUEBEC'S PROGRAM MAKES BOTH ECONOMIC AND  
POLITICAL SENSE, AND THAT PARTI QUEBECOIS HAS PLACED CHRETIEN IN  
DIFFICULT POSITION, WITH POLITICAL REPERCUSSIONS SHOULD OTTAWA NOT  
ACCEPT QUEBEC'S MODIFICATIONS. END SUMMARY

1. QUEBEC FINANCE MINISTER JACQUES PARIZEAU GAVE QUEBEC'S RESPONSE  
LAST NIGHT TO FEDERAL FINANCE MINISTER CHRETIEN'S OFFER TO COM-  
PENSATE PROVINCIAL GOVERNMENTS FOR SALES TAX REDUCTIONS. IN A  
MOVE WHICH IS GENERALLY VIEWED HERE AS BOTH POLITICALLY AND ECONOMI-  
CALLY ADROIT, PARIZEAU ANNOUNCED THAT QUEBEC WOULD ABOLISH FOR  
ONE YEAR SALES TAXES ON CLOTHING, TEXTILES, SHOES AND RESIDEN-  
TIAL FURNITURE. MOREOVER, SALES TAX ON HOTEL ROOMS WILL BE  
PERMANENTLY ELIMINATED AS OF MIDNIGHT APRIL 19.

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2. TOTAL LOSS OF REVENUS FOR QUEBEC UNDER PARIZEAU PROPOSAL  
WILL STILL BE ABOUT DOLS 340 MILLION, ABOUT SAME AS WOULD HAVE BEEN  
LOST UNDER CHRETIEN PROGRAM, BUT TAX REDUCTIONS WILL LAST A  
YEAR INSTEAD OF SIX OR NINE MONTHS PROPOSED BY FEDERAL  
GOVERNMENT. GAMLE FOR QUEBEC IS THAT FEDERAL GOVERNMENT COULD  
REFUSE TO GO ALONG WITH QUEBEC'S MODIFICATION AND WITHDRAW ITS

OFFER TO PAY TWO-THIRDS OF LOSS IN REVENUE THAT PROVINCES WOULD HAVE INCURRED AS A RESULT OF FEDERAL PROPOSAL. RESPONSE FROM OTTAWA IS EXPECTED TOMORROW.

3. COMMENT: REACTION IN MONTREAL TO PARIZEAU'S COUNTER IS POSITIVE, WITH CONSENSUS THAT PQ HAS OUTSMARTED THE FEDS. BY CHOOSING TRADITIONAL SECTORS IN WHICH QUEBEC'S PRODUCTION IS CONCENTRATED, QUEBEC HOPES TO CAPTURE LARGER SHARE OF BENEFITS. AT SAME TIME, THERE IS FEELING THAT CONSUMER RESPONSE IS LIKELY TO BE MORE VIGOROUS WITH SELECTIVE TAX CUTS THAN WITH ACROSS THE BOARD FORMULA PROPOSED BY FEDERAL GOVERNMENT. LENGTHENING OF TAX CUT PERIOD TO ONE YEAR UNDER PROVINCIAL PROGRAM IS ALSO APPLAUDED, ALTHOUGH THERE IS RECOGNITION OF WHAT APPARENTLY IS FEDERAL ARGUMENT THAT STIMULATION SHOULD BE TELESKOPED INTO A SHORTER PERIOD TO PROVIDE BIGGER BANG. FOR MONTREAL'S HOTELS, SUFFERING FROM HIGHEST TAXES AND LOWEST OCCUPANCY RATES IN CANADA, PARIZEAU'S ANNOUNCEMENT WAS PARTICULARLY WELCOME.

4. MOVE HAS SEVERAL IMPLICATIONS, WHICH ARE SIGNIFICANT IN FEDERAL-PROVINCIAL CONTEXT. BY MODIFYING PROPOSAL TO SUIT ITS OWN NEEDS, QUEBEC HAS RECAPTURED INITIATIVE FOR PROVINCE. BUT WITH EMPHASIS ON TRADITIONAL SECTORS, PQ'S PROGRAM CAN BE VIEWED BY OTHER PROVINCES AS AN EXTENSION OF "BUY QUEBEC" POLICY, WHICH TO A LARGE EXTENT IT IS. FOR ITS PART, PQ RESPONSE IS THAT FEDERAL PROGRAM ITSELF BORE "BUY ONTARIO" STAMP. IN THIS CONNECTION, IT IS INTERESTING TO NOTE THAT PQ PROGRAM EXCLUDES

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AUTOMOBILES, EVEN THOUGH GENERAL MOTORS HAS LARGE PLANT IN ST. THERESE, OUTSIDE MONTREAL. THUS FOR FEDERAL GOVERNMENT, ACCEPTANCE OF QUEBEC PROGRAM HAS EFFECT OF SPLINTERING PROGRAM THAT WAS DESIGNED WITH NATIONAL OBJECTIVES IN MIND.

5. QUEBEC'S ANNOUNCEMENT IS SEEN AS PUTTING CRETEN IN A BOX. IF HE GOES ALONG WITH QUEBEC, OTHER PROVINCES MAY DEMAND SIMILAR MODIFICATIONS. ON OTHER HAND, REFUSAL TO GO ALONG WITH QUEBEC WILL PLACE FEDERAL GOVERNMENT IN DIFFICULT POLITICAL POSITION IN QUEBEC, WITH PQ POINTING TO PROOF THAT OTTAWA POLICIES DO NOT ADEQUATELY TAKE QUEBEC'S INTERESTS INTO ACCOUNT. HIGH PRIDE QUOTIENT ON BOTH SIDES MAKES ANY WAGERS RISKY, BUT IT WOULD APPEAR THAT OTTAWA WILL NOW BE FACED WITH NEED TO COME UP WITH COUNTER PROPOSAL THAT WILL BOTH SAVE FACE FOR FEDS AND GO AT LEAST PART WAY TOWARD MEETING DEMANDS OF QUEBEC. HARPER

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